UNION GAS LIMITED

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Annual Report for the year ended March 31, 1974

Natural gas heat melts brass used in casting large electrical switches and other products at Guelph. Gas is essential to the industrial economy of Southwestern Ontario.

Clothes drying and cooking are two of the more popular uses of natural gas in the home. Residential sales continue to be an important element in the Company's marketing plans.

Union Gas Limited

Comparative Highlights

Fiscal years ended March 31	1974	1973	1972
Gas sales and other income	$189,911,000	$164,521,000	$143,422,000
Net income for the year	$ 12,704,000	$ 16,018,000	$ 14,497,000
Dividends on preference shares	$ 1,010,000	$ 1,038,000	$ 1,046,000
Earnings applicable to common shares:			
Total	$ 11,694,000	$ 14,980,000	$ 13,451,000
Per share	77.4¢	99.1¢	89.0¢
Dividends declared on common shares:			
Total	$ 9,672,000	$ 9,672,000	$ 8,990,000
Per share	64.0¢	64.0¢	59.5¢
Natural gas sales *MCF	220,498,000	202,696,000	173,251,000
Total customers at year end	378,000	362,000	347,000
Average gas use per customer *MCF			
Residential	134.6	140.9	133.5
Commercial	947.3	925.8	790.5
Maximum day send-out *MCF	1,903,000	1,810,000	1,796,000
Construction expenditures	$ 28,124,000	$ 32,459,000	$ 25,426,000
Gross Property Account at year end	$367,174,000	$341,820,000	$312,458,000

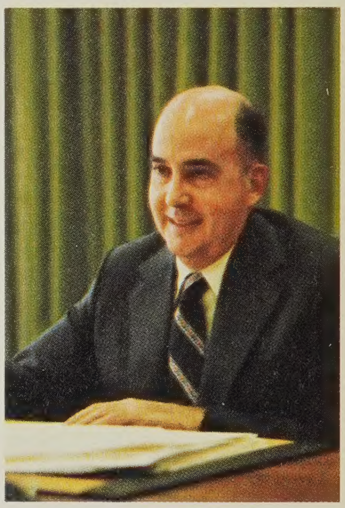
*MCF means thousand cubic feet

Contents

Annual Meeting of Shareholders
Shareholders are cordially invited to attend the Annual Meeting to be held at the Wheels Motor Inn, 615-635 Richmond St. (corner Keil Drive South) Chatham, Ontario, on Tuesday, June 18, 1974, at 11 o'clock a.m. (Eastern Daylight Time).

Letter to the Shareholders:

Ron W. Todgham, Chairman



Bruce F. Willson, President

Union Gas, in the fiscal year ended March 31, 1974, had higher sales volume and revenue and served more customers than ever before but experienced a substantial decline in net income. The Company's growth in overall activity and the extension of its facilities reflect the continued progress of the South-western Ontario economy served by Union. Net income declined from $16.0 million in fiscal 1973 to $12.7 million in fiscal 1974, or from 99¢ to 77¢ per common share. Principal factors in the reduction were sharp increases in the cost of gas and in interest rates, milder than normal weather which affected residential and commercial use of gas and the elimination of special short term tax credits which had contributed $1.6 million to earnings for fiscal 1973.

In May 1973 the Company applied to the Ontario Energy Board for fair and reasonable rates to offset rapidly escalating costs due to inflationary forces beyond the control of the Company. Since then approval has been received for two interim rate adjustments which offset most of the increase in gas prices which occurred in 1973, but the hearing into the main application involving all elements of cost did not commence until January 1974. This hearing is divided into two phases, the first dealing with overall revenue requirements. The second phase will focus on new rate schedules designed to provide the total revenue determined by the Board to be appropriate. It is hoped that the "regulatory time lag" inherent in these proceedings will be shortened as much as possible in order to minimize further deterioration in earnings.

Gas supply for the medium and long term remains a problem and is receiving much management attention. However, for the short term, supplies presently under contract will permit a growth of 12% in sales volumes for fiscal 1975 and plans are well advanced for marketing these additional amounts. Union's principal supplier, TransCanada PipeLines Limited, is endeavouring to contract for further gas reserves and to bring new supplies to Eastern Canadian markets. Recently TransCanada advised that, unless the rate of discovery in the traditional supply area of Western Canada exceeds present expectations, the

annual rate of delivery will not increase and indeed may decrease until significant new reserves become available from other sources.

Initial applications in connection with the proposed gas transmission system to deliver gas from Alaska and the Mackenzie Delta area to Canadian and U.S. markets were recently filed with government regulatory agencies in both countries. Union Gas is one of the twenty-seven member companies of Canadian Arctic Gas Study Limited which was formed to obtain approvals for the construction of this 2400-mile pipeline, now expected to cost in excess of $6 billion. Your Company's pro rata share of the costs incurred to March 31, 1974 in connection with the research and experimentation, engineering and design studies leading to the applications is $1.9 million. This is carried as a deferred asset in the accounts of the Company. Receipt of gas supplies from the Mackenzie Delta is vital in order to provide for Canada's growing energy needs and to offset declining reserves in the Western provinces.

The indicated growth in the demand for energy is such, however, that in the long term other new sources of supply will be necessary in addition to the Mackenzie Delta reserves. The Company has created an Energy Supply Studies Group to evaluate supply alternatives including the possibility of natural gas from the Arctic Islands and the offshore areas of the Atlantic provinces, as well as the production of synthetic gas from coal or oil.

Canadian natural gas users will shortly be feeling the high cost impact of the energy crisis which exists in certain parts of the world. Partly as a result of the insatiable U.S. appetite for Canadian energy supplies, the royalty and producing interests in Western Canada are endeavouring to raise prices to Canadian users to the level which these supplies would command if sold outside Canada. The ironic result is that natural gas will soon cost the central Canadian consumer considerably more than his counterpart in the United States mid-west because in the U.S. the field price of gas reserves discovered before the recent energy crisis remains under Federal control. No such protection is in effect in Canada. A recent Alberta arbitration board award calls for the field price to rise to 73¢ per mcf by November 1, 1975. This constitutes a fourfold increase since 1972.

This will inevitably have a detrimental effect on the competitive position of Canadian industry in serving both domestic and international markets. While Union Gas is not opposed to higher prices for new supplies to provide an incentive for exploration, the Company has strongly recommended appropriate action by the Canadian government with regard to the pricing of existing gas production. Such Federal action is necessary to prevent serious damage to the economy and to enable Canadian consumers to obtain the benefits of what should be adequate supplies at reasonable prices.

In April 1974 the Company announced the acquisition of 600,000 common shares of Major Holdings & Developments Limited representing a 28% interest in that company's equity, at a cost of $2.2 million. Major Holdings is engaged in land development and in the construction of commercial properties for sale and for lease, and is active in the residential housing market. It has operations in the Kitchener, Waterloo, Cambridge, Woodstock and Sarnia areas, with plans to expand to several other communities in Southwestern Ontario. Since Union Gas has a parallel interest in the residential and commercial energy markets in its territory, the Company considers this investment appropriate.

On February 6, 1974 the Company's 1,100 unionized employees, approximately 55 per cent of all personnel, went on strike, and as of the date of this letter are still off the job. Negotiations for renewal of the collective labour agreements had commenced last October, with the then existing agreements expiring on December 31. The strike was called by the unions before any major economic issues had been discussed. Negotiations are complicated by the fact that two international unions and fifteen separate bargaining units are involved. During the course of the strike many incidents of vandalism have resulted in disruption of service to more than 20,000 customers. However, through the dedicated efforts of our supervisory and other personnel, service was restored with a minimum of inconvenience in most cases and system-wide operations have been maintained on a satisfactory basis for the Company's 378,000 customers.

During the year the amalgamation of Union Gas Limited with its wholly-owned subsidiary, United Gas Limited, was announced following amendment to the income tax laws necessary to prevent a capital gain or loss effect upon any shareholder as a result of the amalgamation. The two companies had been associated for forty-five years. This simplification of the Company's corporate structure will result in improved efficiency and savings in administrative costs.

Mr. John B. Cronyn of London, Ontario and Mr. William H. Watson, Chatham, Ontario, were elected to the Board of Directors at the June 1973 Annual Meeting of Shareholders, at which time best wishes and expressions of appreciation were extended to retiring directors David P. Rogers and F. R. Palin, the Company's long time Chairman and President, respectively.

On behalf of the Board of Directors,

Ron W. Todgham

Chairman of the Board

Bruce F. Willson

President and Chief Executive Officer

Chatham, Ontario, May 14, 1974

Financial Review

Fiscal 1974 earnings were adversely affected by rising gas costs, considerably higher interest rates, abnormally mild weather throughout most of the fiscal year and reduced consumption by residential customers. The failure of revenues to keep pace with rapidly rising costs emphasizes the importance of prompt and timely rate adjustments. Total revenue of $189.9 million for fiscal 1974 was an increase of $25.4 million, or 15.4%, over the prior year, but the higher revenues were not sufficient to offset increased expenses.

Gas sales revenue of $174.6 million was up $23.2 million, or 15.3%, of which $11.9 million is attributable to interim rate increases and price escalation clauses under industrial contracts resulting from the increases in gas supply costs experienced during 1973.

The volume of gas sold in fiscal 1974 was 220.5 billion cubic feet, an increase of 17.8 billion cubic feet, or 8.8%, over the previous year. The number of customers added to the system during the period was an all time high of 15,934, bringing the total number of customers being served at March 31, 1974 to 377,625. However, volume of sales to residential customers showed no increase over the previous year. The 7.4% growth in sales to commercial customers was lower than has been experienced in recent years. Industrial sales volumes increased 12.3% in fiscal 1974, primarily as a result of increased activity by the chemical, steel and construction-related industries in Southwestern Ontario.

The Company's other income is provided principally from the transportation and storage of gas for other companies, rental of gas appliances, interest on merchandise time payment contracts and mortgages receivable, and charges to customers for service work. This other income amounted to $15.3 million, up 16.9% from the prior year, reflecting stepped-up activity in most areas.

Total expenses for fiscal 1974 were $165.0 million, up $29.4 million, or 21.7%. The cost of gas sent to market increased by 27.0%, partly because of increased sales volumes but principally due to higher rates granted to our major pipeline suppliers by the various regulatory agencies. These rate adjustments reflect higher field prices as well as cost-related increases.

Interest costs rose $3.0 million, or 28.8%, in the 1974 fiscal year, reflecting the larger amount of long term debt outstanding and the sharp rise in short term interest rates. On June 1, 1973 a $20 million 8¼% Debenture Series was issued to finance in part additions to plant facilities.

Federal and Provincial income tax reductions which had been in effect during the prior fiscal year and which had reduced income taxes by approximately $1.6 million in that year were not continued in the 1974 fiscal year. This had a significantly adverse influence on reported earnings.

Gas sales volume and revenue

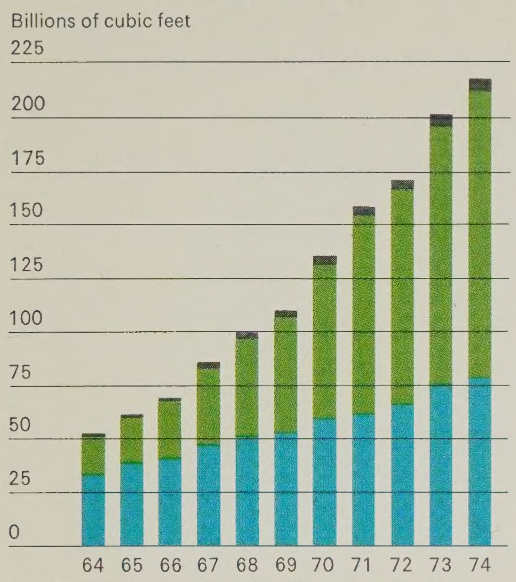
	Volume in millions of cubic feet			Revenue in thousands of dollars		
Class of customer:	Year to March 31 1974	% of total	% over 1973	Year to March 31 1974	% of total	% over 1973
Residential	44,285	20.1	—	$ 53,471	30.6	5.8
Commercial	34,230	15.5	7.4	33,317	19.1	13.3
Industrial	136,897	62.1	12.3	84,362	48.3	22.9
Other gas distributors for re-sale	5,086	2.3	9.2	3,442	2.0	23.0
Total	220,498	100.0	8.8	$174,592	100.0	15.3

Capital structure

At March 31, 1974 total capitalization was as follows:	($000's)	% of total
Common shares	$ 31,346	
Accumulated earnings retained for use in the business	56,737	
Total common equity	88,083	33.8
Preference share equity	18,414	7.1
Total equity	106,497	40.9
Long term debt (exclusive of portion to be retired within 12 months and carried on the balance sheet as a current liability)	153,599	59.1
Total capitalization	$260,096	100.0

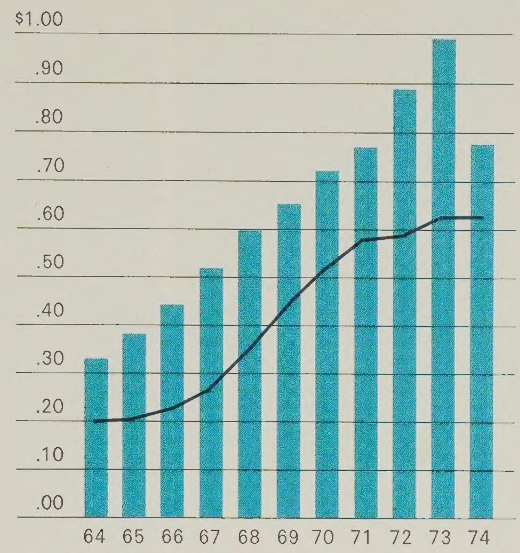
Annual volume of gas sales

Residential and commercial
Industrial
Other gas companies

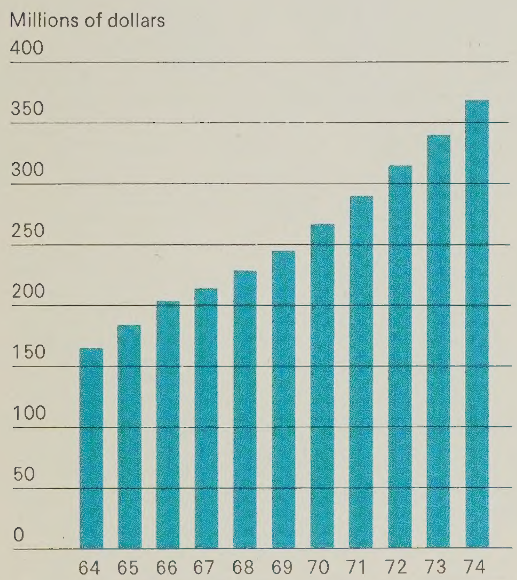


Earnings and dividends

Earnings per common share
Dividends declared per common share

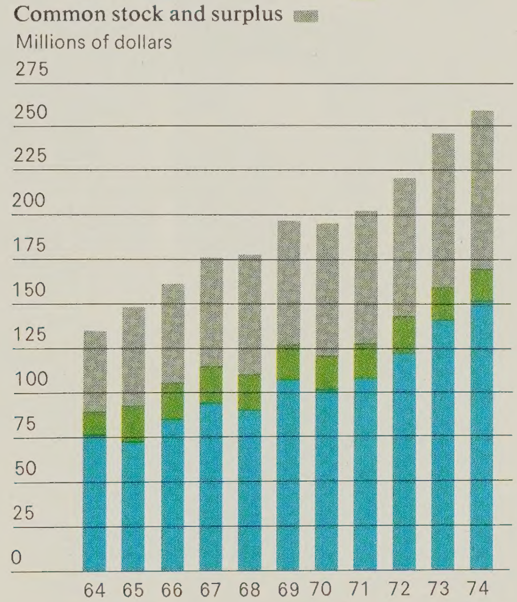


Gross property account

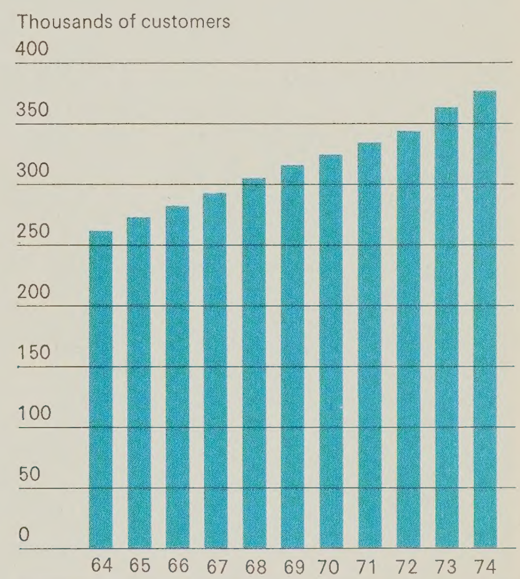


Capital structure

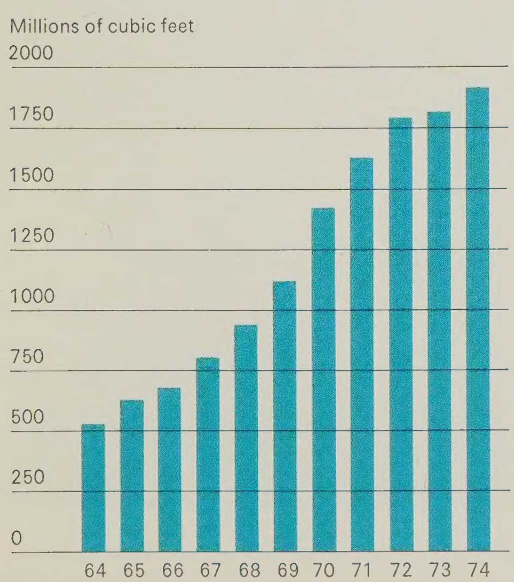
Funded debt
Preferred stock
Common stock and surplus

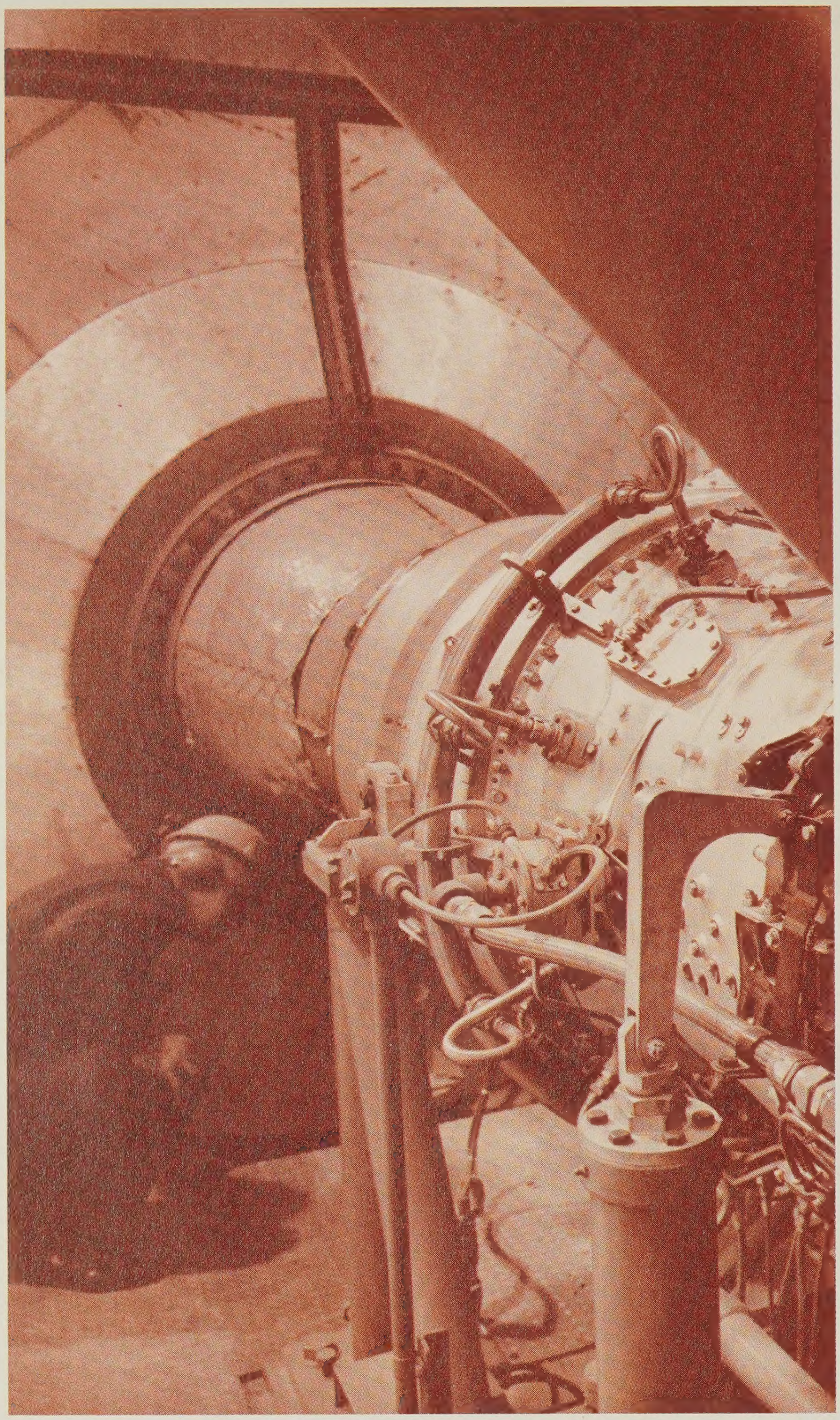


Number of customers served



Maximum day send out





The Company's newest compressor station, located northeast of Woodstock on the main east-west transmission system, was placed in service in the fall of 1973 — in time to meet peak winter demands. The station's turbine engine, similar to those used to power large aircraft, is rated at 16,000 h.p.

Extension and improvement of the Company's transmission and distribution systems continued during the 1973 construction season. The welder shown here is working on one such project, involving the upgrading of some 55,000 feet of 6-inch and 8-inch pipeline in the Delhi area, southeast of London.

Rates and Regulation

It is essential that the financial results of our operations provide a fair and reasonable return on capital invested, so that we may continue to attract the flow of new capital required annually to construct necessary facilities in order to meet the growing needs of gas consumers in Southwestern Ontario. The maintenance of the high quality of the Company's securities will minimize the ultimate cost of service to the customers.

Effective July 1, 1973 approval was given by the Ontario Energy Board for an interim increase of 3.25¢ per mcf to permit the recovery from our customers of certain increases in the cost of gas supply. This higher cost, amounting to approximately $8 million on an annual basis, was the result of decisions of other regulatory agencies with respect to rates charged by our pipeline suppliers.

Later in the year and following further approved rate increases for our suppliers, the effect of which was to raise the cost of gas on an annual basis by an additional $17 million, the Company obtained a second interim increase of 7¢ per mcf in rates to customers. While the higher gas costs had in part become effective in September and in part in November, the Company passed on to its customers the benefit of the inventory gas in underground storage which had been acquired prior to the suppliers' rate increases. Introduction of the second interim increase was therefore deferred until January 1, 1974.

Our major supplier, TransCanada PipeLines Limited, has now made further applications to the National Energy Board for increases in gas sales rates. Should the applications be approved as filed, the resulting increase in the rates charged by TransCanada would be in the order of 16¢ per mcf, an additional annual cost to Union of about $37 million. It is our intention to apply to the Ontario Energy Board for approval of interim rate adjustments in equivalent amounts to coincide with the time the gas cost increases become effective.

A recent decision of an Alberta arbitration board raised the field price of gas from 26¢ per mcf to 60¢ per mcf for gas delivered under certain contracts, commencing November 1, 1974, and to 73¢ per mcf at November 1, 1975. This arbitrary and exorbitant increase will apply to some 40% of the gas under contract to TransCanada as of November 1, 1974 and will lead to Union's cost of gas from that supplier increasing by about 18¢ per mcf, or $41 million a year. However, the 73¢ per mcf field price to be effective November 1, 1975, unless altered in the interim, would be applicable to all gas purchased by TransCanada in Alberta and would, when applied to volumes currently under contract by Union, add a further $76 million annually to the cost of our gas supply.

It is apparent, considering the frequency and magnitude of gas cost increases as outlined above as well as the accelerated rate of inflation affecting virtually all other costs, that the Company will be involved continually in regulatory proceedings to adjust rates. It is imperative that the regulatory process be such that these matters can be handled in a timely, efficient and co-ordinated manner.

As previously reported, an application for a full review of our rates was filed with the Ontario Energy Board in May 1973 and a hearing is now in progress. In contrast with the increases in cost of gas mentioned above and which amount to $179 million, the revenue increase requested in the Company's application, the first in twenty-five years, is approximately $11 million. This increase is required to offset cost changes already in effect, including increases in labour costs, provincial and municipal taxes and interest rates.

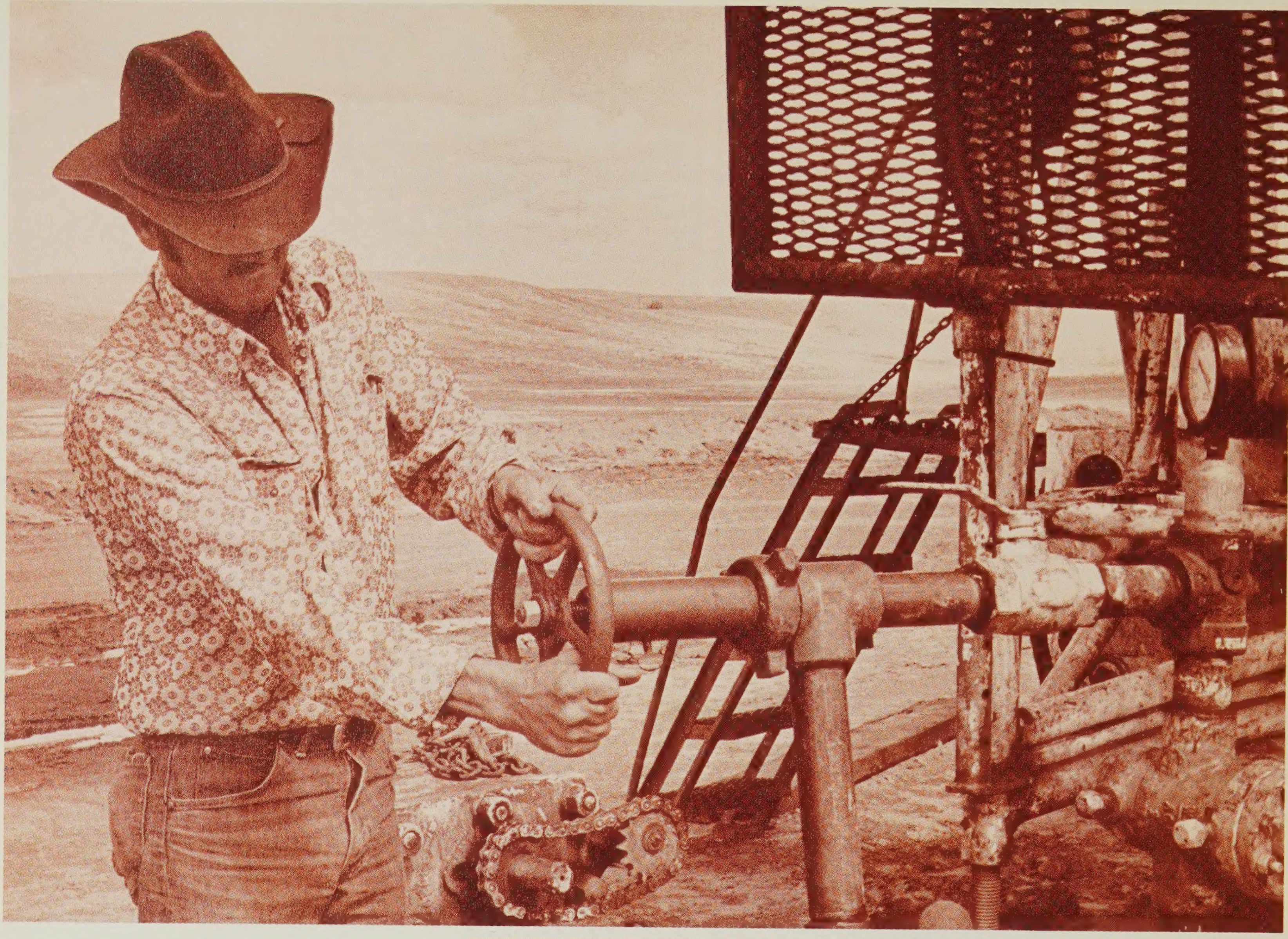
System Expansion

Cash expenditures totalled $28.1 million on additions to and replacements of plant, properties and equipment in fiscal 1974.

The largest part of the capital program was the expenditure of some $13 million on the installation of distribution mains, service lines, meters and regulators to meet the needs of the 250 communities served by the Company.

Some $3 million was invested in water heaters, conversion burners and boilers installed in customers' premises under the Company's rental plans.

The largest single project, costing $3.3 million, was the construction of a compressor station housing a 16,000 h.p. turbine unit at a point on our main transmission pipeline system near Woodstock. This installation provides greater capacity to transport larger volumes of gas on behalf of TransCanada PipeLines Limited and The Consumers' Gas Company, as well as to



As part of its exploration activities in Western Canada, Union Gas participated in a 15-well drilling program in East-central Alberta which uncovered modest reserves of natural gas. In this picture a workman opens a valve in preparation for testing one of the successful wells.

Vibrations generated mechanically by this seismic unit penetrate deep into the earth, reflect off rock formations and return to the surface. The time required for each signal's "round trip" is recorded on magnetic tape and processed by computer. By interpreting this data, the geologist is able to learn more about subsurface rock structures and their potential. Used for the first time in Ontario in 1973, this technique will assist Union Gas in locating formations which may be suitable for gas storage.

meet the higher peak day requirements of our own customers.

During the year a new St. Clair Region administrative and service centre was completed in Chatham and a new service centre was constructed in Owen Sound.

Construction expenditures for fiscal 1975 are expected to amount to some $35 million. These expenditures will enable the Company to provide service to an estimated 17,000 new customers; to increase delivery capacity to certain communities; and to construct some 11 miles of 42-inch pipeline as the first step in the planned installation of a third major pipeline extending from the Dawn compressor station in Lambton county to the Trafalgar station north of Oakville.

Gas Supply

Total gas supply in the 1974 fiscal year, of 245.2 billion cubic feet, was an increase of 36.5 billion cubic feet, or 17.5%, over the volumes received in the previous year. Included in the gas delivered by TransCanada PipeLines, which accounted for some 92% of the Company's total supply, was about 5 billion cubic feet representing pre-delivery of volumes contracted for the 1975 fiscal year. Panhandle Eastern Pipe Line Company continued to be affected by supply problems, but nevertheless was able to deliver almost the same level, about 96% of the annual contract volume, as in the 1973 fiscal year. It is not anticipated that this contract, which calls for the importation of 15.2 billion cubic feet per annum from the U.S., can be renewed upon expiry in the Fall of 1976.

Supplies from independent producers in Southwestern Ontario and from Company production continued to decline during the year, partially due to further depletion of the gas fields but also due to our labour difficulties, which necessitated closing down temporarily some of the producing wells.

The capacity of the Company's underground storage pools was almost fully utilized during December 1973, when the total volume in place including cushion gas reached 88.7 billion cubic feet. Union's inventory of gas available for sale at March 31, 1974 amounted to 21.5 billion cubic feet, including the approximately 5 billion cubic feet pre-delivered on account of 1975 fiscal year supplies.

The administrative and operating centre shown here was opened at Chatham in September replacing facilities which date back more than 40 years. In December the first Company-owned business office and service centre in Owen Sound was opened to serve the Company's most northerly markets.

During the year the Company conducted further seismic work on some of its acreage, and participated on a joint basis in such activity on acreage held by others in Southwestern Ontario, resulting in the identification of a limited number of potential gas bearing structures. Exploratory drilling in one location in partnership with other producers led to what it appears may be a successful gas discovery. Further wells are planned to evaluate this find and explore the other prospects.

Under the direction of our exploration office in Calgary the Company participated in the drilling of 24 wells in Western Canada, six of which were

completed as potential producers. Initial production from one of these wells will be on stream by early summer.

Additionally, the Company is a member of a group which has acquired coal interests in the Lethbridge, Alberta area and it is estimated that Union's share of reserves discovered to date amounts to approximately 83 million tons. Studies are currently under way to determine the economics of mining and marketing this energy resource.

It is anticipated that the total volume of gas available from all sources for the fiscal year which commenced April 1, 1974 will be 250 billion cubic feet. This includes some 4.4 billion cubic feet of new supply under contracts now being negotiated with TransCanada for annual volumes of 10.6 billion cubic feet commencing November 1, 1974. This additional supply will provide for only a portion of the increasing needs of the service area and we are continuing our efforts to obtain further supplies to meet our short and long term requirements.

An Energy Supply Studies Group, formed within the Company, is examining some of the possible implications of introducing substitute fuels into the Union Gas system. The group is also evaluating the economics of alternate sources of gas. The group is headed by Bradford C. White, who is shown here (right) with his assistant John F. Barrington.

Gas purchased and produced

	Volumes in millions of cubic feet			
Source:	Year to March 31 1974	% of total	Year to March 31 1973	% of total
TransCanada	225,055	91.8	185,862	89.1
Ontario Producers	4,812	2.0	6,094	2.9
Panhandle Eastern	14,610	5.9	14,874	7.1
Total purchased	244,477	99.7	206,830	99.1
Produced from Company Wells	780	.3	1,888	.9
Total Gas Supply*	245,257	100.0	208,718	100.0

*Excluding gas transmitted and stored for other companies

Corporate Responsibility

Union Gas is involved in the transportation, storage and marketing of natural gas to help meet the growing demand for energy in Southwestern Ontario and, in addition, conducts exploration activities in both Western Canada and Ontario. Every effort is made to provide gas service in a safe, reliable and efficient manner, at the lowest practicable cost.

The Company recognizes that this objective can only be attained through the efforts of the people who are the Company – our employees at all levels – and we endeavour to provide challenging and rewarding job opportunities at fair and equitable remuneration.

Training and development programs, including courses on economic evaluation, planning, and new developments in equipment technology, are held within the Company and selected employees attend courses conducted by educational institutions and industrial associations relative to our activities. An educational aid program is provided to reimburse seventy-five per cent of the cost of tuition fees and text books to employees who successfully complete courses at colleges and universities outside working hours.

Company personnel in all areas are encouraged to participate in community affairs, and become involved in charitable, service, health and educational organizations contributing to the betterment of society.

London, Chatham and Windsor service clerks are now able to communicate directly with the Company's Head Office computer, to obtain billing and service information for customers in a matter of seconds. As shown here, the request is typed on a special keyboard and the answer is reproduced on a small television monitor. The system, which also provides printed answers when required, will be extended to all of the Company's remaining major markets.

Forest Glade, a new Windsor subdivision, contains approximately 1000 housing units, each of which uses natural gas for heating and water heating. A further 250 units, also gas equipped, are scheduled for completion by the end of 1974.

One of the more impressive structures erected as part of Hamilton's downtown redevelopment program is Hamilton Place, a civic auditorium and cultural centre which features outstanding musical presentations. Like many other downtown buildings, Hamilton Place relies on natural gas for heating and water heating.

Union Gas Limited (incorporated under the laws of Ontario)

Statement of Income ($000's)

For the year ended March 31, 1974 (with comparative figures for the 1973 year)

	1974	1973
Revenue:		
Gas sales (note 2)	$174,592	$151,416
Other income	15,319	13,105
	189,911	164,521
Operating expenses and interest:		
Cost of gas sent out	109,832	86,453
Other operating and maintenance costs	30,866	28,878
Property and capital taxes	3,818	3,462
Depreciation (note 3)	7,310	6,596
Interest and expense on long-term debt (note 3)	11,460	8,935
Other interest expense	1,719	1,294
	165,005	135,618
Income before income taxes	24,906	28,903
Income taxes (note 4):		
Current	6,852	6,131
Deferred	5,350	6,754
	12,202	12,885
Net income for the year	12,704	16,018
Dividends on preference shares	1,010	1,038
Earnings applicable to common shares	$ 11,694	$ 14,980
Earnings per common share	77.4¢	99.1¢

Statement of Accumulated Earnings Retained for Use in the Business ($000's)

For the year ended March 31, 1974 (with comparative figures for the 1973 year)

	1974	1973
Balance at beginning of year	$ 54,715	$ 49,407
Add net income for the year	12,704	16,018
	67,419	65,425
Deduct dividends declared (rate per annum):		
Preference shares –		
Series A—$2.75 per share	413	425
Series B—$3.00 per share	270	270
Series C—$2.50 per share	327	343
	1,010	1,038
Common shares –		
64¢ per share in 1974 and 1973	9,672	9,672
	10,682	10,710
Balance at end of year	$ 56,737	$ 54,715

(*See accompanying notes*)

Balance Sheet ($000's)

March 31, 1974 (with comparative figures as at March 31, 1973)

	1974	1973
ASSETS		
Properties (note 3):		
Distribution, systems, transmission lines, gas wells and gathering lines, gas storage facilities, base pressure gas, land and buildings, etc.—at cost	$367,174	$341,820
Less accumulated depreciation	66,973	61,999
	300,201	279,821
Current assets:		
Accounts receivable (note 5)	34,191	27,940
Inventories of merchandise, stores and spare equipment, valued at the lower of cost and replacement cost	7,242	4,830
Prepayments	164	229
Gas in underground storage, available for current sale—at cost	11,478	2,597
	53,075	35,596
Deferred and other assets:		
Mortgages receivable (note 5)	3,248	4,352
Gas Arctic—Northwest Project Study Group expenditures (note 6)	1,903	1,175
Unamortized discount and expenses on issues of long-term debt	1,695	1,516
Deferred gas costs (note 7)	5,391	4,656
Other deferred charges	1,010	237
	13,247	11,936
	$366,523	$327,353
LIABILITIES		
Shareholders' equity:		
Capital stock (note 8)—		
Preference shares with a par value of $50 each:		
Authorized—368,281 cumulative redeemable shares		
Issued —148,681 5½% Series A	$ 7,434	$ 7,626
— 90,000 6% Series B	4,500	4,500
—129,600 5% Series C	6,480	6,860
Common shares without par value:		
Authorized—22,000,000 shares		
Issued —15,111,705 shares	31,346	31,346
	49,760	50,332
Accumulated earnings retained for use in the business (note 9)	56,737	54,715
	106,497	105,047
Long-term debt (note 14)	153,599	141,891
Deferred income taxes (note 4)	48,521	43,171
Current liabilities:		
Bank indebtedness	21,605	10,352
Accounts payable and accrued charges	17,555	13,985
Dividend payable	2,418	2,418
Income and other taxes payable	5,044	2,257
Accrued interest on long-term debt	3,403	2,945
Long-term debt instalments due within twelve months (note 14)	7,881	5,287
	57,906	37,244
	$366,523	$327,353

On behalf of the Board:

RON W. TODGHAM, Director

BRUCE F. WILLSON, Director

(See accompanying notes)

Statement of Source and Application of Funds ($000's)

For the year ended March 31, 1974 (with comparative figures for the 1973 year)

	1974	1973
Funds provided:		
Net income for the year	$12,704	$16,018
Add amounts deducted in arriving at net income which did not involve an outlay of funds—		
Depreciation and amortization	7,949	7,208
Deferred income taxes (note 4)	5,350	6,754
Total funds provided from operations	26,003	29,980
Proceeds from issue of long-term debt	19,616	24,383
Net repayments on mortgages receivable	1,104	1,714
Increase (decrease) in working capital deficit	3,183	(1,898)
	$49,906	$54,179
Funds applied:		
Net expenditure on properties	$28,124	$32,459
Retirement of long-term debt	8,292	5,751
Dividends declared—common shares	9,672	9,672
—preference shares	1,010	1,038
Purchase of preference shares for cancellation	572	173
Gas Arctic—Northwest Project Study Group expenditures (note 6)	728	1,175
Deferred gas costs (note 7)	735	3,800
Other deferred charges	773	111
	$49,906	$54,179

(*See accompanying notes*)

Notes to Financial Statements

1. Amalgamation

Effective March 31, 1973, a Certificate of Amalgamation of Union Gas Limited and its subsidiary, United Gas Limited, was received from the Government of Ontario resulting in a single corporate entity under the name of Union Gas Limited. Union Gas Investments Limited, an inactive subsidiary, is consolidated in the accompanying financial statements.

2. Interim rate increases

As a result of increases in cost of gas payable to principal suppliers, the Company received approval from the Ontario Energy Board to charge its customers interim rate increases of 3.25¢ per mcf commencing July 1, 1973 and a further 7¢ per mcf commencing January 1, 1974. These interim rate increases were granted on the basis that they would be refunded in whole or in part if the Ontario Energy Board were to determine, following the full rate hearing now in progress, that revenues from utility operations exceeded a just and reasonable level. The amount of revenue from the interim rate increases included in gas sales is approximately $6,100,000.

3. Properties and depreciation

The following is a summary analysis of the cost of properties:

	March 31	
	1974	1973
	($000's)	
Production	$ 7,831	$ 7,482
Storage	22,380	22,116
Transmission	108,472	103,067
Distribution	195,565	179,862
General	32,926	29,293
	$367,174	$341,820

Depreciation is provided on the straight-line basis at various rates based on periodic review by consultants of the useful service life of each class of property. Estimated useful lives of major property classifications are as follows:

Transmission mains	75 years
Distribution mains	70 years
Buildings and service lines	50 years
Storage plant, compressors, meters, and purification, measuring and regulating equipment	30 to 40 years

In the current rate hearing before the Ontario Energy Board, the Company has requested permission to establish a maximum estimated useful life of 40 years for any property class to recognize present uncertainties related to future gas supplies. This would result in an annual increase of approximately $2 million in the provision for depreciation, but would not commence until the date of implementation of new rates as approved following the hearing.

Total depreciation provided for the year ended March 31, 1974 amounted to $7,744,000 ($7,033,000 in the 1973 year). Of this amount $7,310,000 was charged directly as an operating expense and the remainder of $434,000 was allocated partly to other expense accounts and partly to property accounts.

Included in the properties account are costs of $1,487,000 ($977,000 at March 31, 1973) related to projects in progress under the Company's program of exploring for and developing natural gas. All exploratory and development costs under the exploration program being carried out in Ontario and Western Canada are accumulated by geographical areas of interest until the results of each project are determined. Costs related to producing areas are transferred to the appropriate property accounts and depreciation is provided at rates recommended by consultants. Costs related to areas determined to be of no interest are written off to income. Exploratory lease rentals not related to the program are charged against income as incurred.

Cost of properties also includes accumulated premiums of $1,778,000 paid on acquisition of subsidiary companies.

Interest charged to construction during the year amounted to $260,000 ($432,000 in the 1973 year).

4. Income taxes

As a result of claiming allowances for income tax purposes for depreciation, certain construction overheads, natural gas exploration and deferred gas costs in excess of amounts charged in arriving at income for the year, income taxes payable will be less than the current year's provision by $5,350,000 ($6,754,000 in the 1973 year) and accordingly this amount is included in the balance sheet in the item "deferred income taxes".

Income taxes were lower by $1,538,000 in the 1973 fiscal year as a result of the 7% reduction in Federal tax rates from July 1, 1971 to December 31, 1972 and in respect of the 5% investment tax credit granted by the Province of Ontario applicable to eligible purchases of new plant from April 26, 1971 to March 31, 1973.

5. Accounts receivable and mortgages receivable

Accounts receivable include $8,652,000 ($9,275,000 in the 1973 year) in merchandise finance plan accounts of which $4,556,000 ($4,872,000 in the 1973 year) is not due within twelve months. Mortgages receivable include $891,000 ($1,200,000 in the 1973 year) in principal instalments due within twelve months.

6. Gas Arctic—Northwest Project Study Group expenditures

The Company is one of 27 participants in a study group, operating through Canadian Arctic Gas Study Limited, whose purpose is to obtain the necessary regulatory approvals for the construction of a high pressure gas transmission pipeline from the northern regions of Canada and Alaska to markets in Canada and the United States.

The Company's contributions to the Study are being deferred in the accounts until the feasibility of the project has been determined and necessary regulatory approvals obtained. If the project is approved by the National Energy Board and other applicable regulatory bodies, the Study Group agreement calls for the participants to sell the information and knowledge resulting from the Study and all their interests in the project to one or more pipeline companies incorporated for the purpose of implementing the project, for a price at least equal to the costs incurred. The agreement also provides that the participants shall have an opportunity to acquire ownership interests in the pipeline companies. On the other hand, in the event the project does not proceed, costs not recovered would be charged against operations in a manner to be approved by the Ontario Energy Board.

7. Deferred gas costs

To enable the Company's major supplier, TransCanada PipeLines Limited, to finance expansion of pipeline facilities necessary for delivery of future volumes of gas, the Company agreed with TransCanada to pay an increased rate of 2.1¢ per mcf for gas purchased from January 1, 1972 until such time as rates approved by the National Energy Board became effective in June 1973. The amount of the additional gas cost to March 31, 1974 has been deferred in accordance with approval received from the Ontario Energy Board but the basis of amortization of the deferred costs has not yet been determined by that Board; no amortization has therefore been recorded to date.

The Company has made application to the Ontario Energy Board during the full rate hearing now in progress to amortize the deferred gas costs over a five-year period to commence when new rates are approved.

8. Capital stock

(a) The preference shares are redeemable as follows:

Series A—at $51.00 per share up to March 30, 1976 and thereafter at $50.50 per share,

Series B—at $55.00 per share at any time,

Series C—at $51.50 per share up to March 30, 1977, then reducing to $51.00 to March 30, 1981 and $50.50 per share thereafter.

Under the conditions attaching to the Series A and Series C preference shares, the Company is committed to purchase shares for cancellation if their market prices fall to par or below as follows:

Series A—in amounts up to $170,000 annually,

Series C—in amounts up to $140,000 annually.

As required by Supplementary Letters Patent, a special allocation of retained earnings is shown on the books of the Company to reflect this commitment. During the year ended March 31, 1974 in compliance with the foregoing conditions, 3,830 Series A shares with a par value of $191,500 and 7,600 Series C shares with a par value of $380,000 were purchased and cancelled.

(b) 218,250 common shares have been reserved under stock option plans for senior employees. Amounts actually under option are as follows:

Number of shares	Option price	Market price at date of option	Date of expiry of option
97,050	$13.05	$14½	April 6, 1978
25,000	13.90	14⅝	May 31, 1981
4,500	13.06	13¾	December 1, 1981

If all the foregoing outstanding options were exercised, there would be no material dilution of earnings per share.

9. Accumulated earnings retained for use in the business

The trust deeds and indentures providing for the issue of the Company's bonds and debentures contain certain restrictions regarding the amount that may be paid as dividends. At March 31, 1974 accumulated earnings retained for use in the business in the amount of $25,802,000 were free from limitation under the most stringent of these restrictions.

10. Capital expenditures

Capital expenditures of approximately $35,000,000 are planned for the fiscal year ending March 31, 1975.

11. Employee pension plan

The unfunded past service obligation which resulted from revisions of the Company's pension plan as of January 1, 1966, 1970 and 1971 is being funded and written off against operations in annual amounts of $284,000 over a period of fifteen years to 1985 based on actuarial advice. The estimated unfunded balance at March 31, 1974 was approximately $1,736,000.

12. Directors' and senior officers' remuneration

Direct remuneration of directors and senior officers totalled $435,000 during the year ended March 31, 1974.

13. Subsequent events

On April 18, 1974 the Company purchased 600,000 (28.3%) of the common shares of Major Holdings & Developments Limited of Waterloo at a cost of $2,206,000. The Company intends to account for income from this investment on the equity basis.

14. Long-term debt

Details of this debt as at March 31, 1974 and 1973 are as follows:

	Total outstanding	Current liability	Long-term portion 1974	Long-term portion 1973
		($000's)		
First mortgage and collateral trust sinking fund bonds:				
5% Series "B", due December 1, 1977	$ 4,423	$ 852	$ 3,571	$ 4,475
5¼% Series "C", due January 15, 1978	7,595	1,195	6,400	7,600
6% Series "D", due October 1, 1977	3,106	—	3,106	3,444
	15,124	2,047	13,077	15,519
Debentures (all sinking fund except serial 1968 Series):				
5¾% 1957 Series, due January 15, 1975	2,850	2,850	—	2,850
5½% 1958 Series, due December 1, 1977	4,798	398	4,400	4,800
5¾% 1961 Series, due July 15, 1981	9,000	550	8,450	9,000
5¾% 1963 Series, due August 15, 1983	10,546	496	10,050	10,550
5⅞% 1965 Series, due September 1, 1985	12,490	490	12,000	12,500
7% 1967 Series, due January 5, 1987	13,100	500	12,600	13,100
7¾% serial 1968 Series, due August 1, 1974-76	1,750	550	1,200	1,750
7¾% 1968 Series, due August 1, 1988	17,000	—	17,000	17,000
9⅛% 1970 Series, due April 1, 1990	10,000	—	10,000	10,000
8% 1971 Series, due November 15, 1991	20,000	—	20,000	20,000
8⅜% 1972 Series, due November 15, 1992	15,000	—	15,000	15,000
8% 1972 U.S. Series, due November 15, 1992	9,822	—	9,822	9,822
8¼% 1973 Series, due June 1, 1993	20,000	—	20,000	—
	146,356	5,834	140,522	126,372
Total amounts per balance sheet	$161,480	$7,881	$153,599	$141,891

The principal amounts of bonds and debentures required to be retired through sinking funds or serial redemptions during the next five years ending March 31 are as follows: 1975—$7,881,000; 1976—$5,466,000; 1977—$6,104,000; 1978—$15,757,000; 1979—$4,944,000. In addition, the 9⅛% 1970 Series debentures are repayable at the holders' option on April 1, 1975.

Auditors' Report

To the Shareholders of Union Gas Limited:

We have examined the balance sheet of Union Gas Limited as at March 31, 1974 and the statements of income, accumulated earnings retained for use in the business, and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at March 31, 1974 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Toronto, Canada, May 7, 1974

Chartered Accountants

Financial and Operating Statistics

Fiscal years ended March 31	1974	1973	1972
Revenues, Expenses and Net Earnings ($000's)			
Revenues:			
Gas sales	$174,592	$151,416	$131,577
Other income	15,319	13,105	11,845
Total revenue	189,911	164,521	143,422
Expenses:			
Cost of gas sent out	109,832	86,453	72,166
Operating and maintenance expenses	34,684	32,340	29,650
Depreciation and amortization of natural gas conversion costs	7,310	6,596	5,977
Interest on long-term debt and other debt	13,179	10,229	9,281
Total expenses	165,005	135,618	117,074
Income before income taxes	24,906	28,903	26,348
Income taxes	12,202	12,885	11,851
Net income before minority interest	12,704	16,018	14,497
Less: Minority shareholders' interest	—	—	—
Net income	12,704	16,018	14,497
Preference share dividends	1,010	1,038	1,046
Net earnings applicable to common shares	$ 11,694	$ 14,980	$ 13,451
Earnings per common share (*A*)	77.4¢	99.1¢	89.0¢
Dividends declared per common share	64.0¢	64.0¢	59.5¢
Source and Application of Funds ($000's)			
Source of funds:			
Net income for year	$ 12,704	$ 16,018	$ 14,497
Depreciation and amortization	7,949	7,208	6,528
Deferred income taxes	5,350	6,754	4,439
Total funds provided from operations	26,003	29,980	25,464
Transfer from current to deferred income taxes	—	—	—
Proceeds from issue of long-term debt	19,616	24,383	19,618
Net repayments on mortgages receivable	1,104	1,714	(−)254
Common share issues		—	38
Preference share issues	—	—	—
Refund of deposit with trustee for bondholders	—	—	—
Special refundable tax	—	—	—
Increase (decrease) in working capital deficit	3,183	(−)1,898	(−)3,104
Total	$ 49,906	$ 54,179	$ 41,762
Application of funds:			
Net expenditure on Properties	$ 28,124	$ 32,459	$ 25,426
Dividends declared—common shares	9,672	9,672	8,990
Dividends declared—preference shares	1,010	1,038	1,046
Retirement of long-term debt	8,292	5,751	5,180
Purchase of preference shares for cancellation	572	173	293
Deferred gas costs	735	3,800	856
Gas Arctic—Northwest Project Study Group expenditures	728	1,175	—
Miscellaneous items	773	111	(−)29
Total	$ 49,906	$ 54,179	$ 41,762

Note: (A) On basis of the weighted average number of shares outstanding during the year

1971	1970	1969	1968	1967	1966	1965	1964
$122,326	$110,232	$ 94,254	$ 87,882	$ 77,404	$ 66,973	$ 59,038	$ 50,834
10,257	9,339	7,605	7,397	6,363	5,446	5,000	4,715
132,583	119,571	101,859	95,279	83,767	72,419	64,038	55,549
63,383	54,992	44,593	40,375	34,036	28,481	24,215	20,176
29,396	27,395	23,648	22,498	20,534	18,593	16,798	15,936
5,471	5,091	5,300	6,154	5,811	5,318	4,800	4,354
8,468	7,821	6,602	6,014	5,586	4,652	4,386	4,277
106,718	95,299	80,143	75,041	65,967	57,044	50,199	44,743
25,865	24,272	21,716	20,238	17,800	15,375	13,839	10,806
13,126	12,327	10,857	10,215	8,966	7,708	7,273	5,531
12,739	11,945	10,859	10,023	8,834	7,667	6,566	5,275
—	—	—	1	1	1	1	7
12,739	11,945	10,859	10,022	8,833	7,666	6,565	5,268
1,060	1,061	1,062	1,066	1,079	1,088	949	738
$ 11,679	$ 10,884	$ 9,797	$ 8,956	$ 7,754	$ 6,578	$ 5,616	$ 4,530
77.3¢	72.2¢	65.2¢	59.8¢	51.8¢	44.0¢	38.4¢	33.3¢
58.0¢	52.0¢	46.0¢	34.0¢	27.0¢	23.3¢	20.8¢	20.0¢
$ 12,739	$ 11,945	$ 10,859	$ 10,022	$ 8,833	$ 7,666	$ 6,565	$ 5,268
6,009	5,584	5,762	6,593	6,267	5,721	5,177	4,736
4,700	3,745	3,240	2,366	1,840	2,127	2,102	1,617
23,448	21,274	19,861	18,981	16,940	15,514	13,844	11,621
—	—	1,640	734	—	—	750	—
9,847	—	19,646	—	14,865	14,877	—	13,827
1,192	(−)896	22	(−)1,006	(−)1,821	(−)1,076	(−)580	(−)496
42	795	49	702	—	—	7,269	—
—	—	—	—	—	—	7,000	—
—	—	—	599	—	778	—	—
—	—	619	(−)35	(−)584	—	—	—
8,283	10,110	(−)8,585	10,083	(−)5,513	(−)3,300	329	(−)1,691
$ 42,812	$ 31,283	$ 33,252	$ 30,058	$ 23,887	$ 26,793	$ 28,612	$ 23,261
$ 28,215	$ 17,836	$ 20,726	$ 19,733	$ 12,824	$ 18,542	$ 21,103	$ 15,656
8,761	7,835	6,912	5,099	4,038	3,490	3,048	2,719
1,060	1,061	1,062	1,066	1,079	1,088	949	737
4,660	4,478	4,428	4,003	5,378	3,678	3,125	3,175
44	24	—	170	310	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
72	49	124	(−)13	258	(−)5	387	974
$ 42,812	$ 31,283	$ 33,252	$ 30,058	$ 23,887	$ 26,793	$ 28,612	$ 23,261

Statistics *continued (MCF means thousand cubic feet) (MMCF means million cubic feet)*

Fiscal years ended March 31	1974	1973	1972
Customers (end of year)			
Residential	336,552	323,042	309,276
Commercial	37,092	35,131	34,309
Industrial	3,970	3,510	3,409
Other utilities	11	8	12
Total	377,625	361,691	347,006
Gas Sales—MMCF			
Residential	44,285	44,294	40,389
Commercial	34,230	31,881	26,736
Industrial	136,897	121,863	102,037
Other utilities	5,086	4,658	4,089
Total	220,498	202,696	173,251
Gas Sales Revenue—($000's)			
Residential	$ 53,471	$ 50,561	$ 46,193
Commercial	33,317	29,405	25,063
Industrial	84,362	68,652	57,883
Other utilities	3,442	2,798	2,438
Total	$174,592	$151,416	$131,577
Average Gas Use per Customer—MCF			
Residential	134.6	140.9	133.5
Commercial	947.3	925.8	790.5
Gas Balance—MMCF			
Gas produced from Company wells	780	1,888	1,661
Gas purchased:			
Ontario sources	4,812	6,094	8,264
Other sources	239,665	200,736	166,295
Gas received under storage, transmission, etc., contracts, less purchased in place	165,997	118,672	113,543
Total all gas	411,254	327,390	289,763
Gas into storage	55,597	47,526	41,723
Gas out of storage	37,154	46,123	48,769
Net gas into or out of (−) storage	18,443	1,403	(−)7,046
Total gas sent out	392,811	325,987	296,809
Gas sales	220,498	202,696	173,251
Gas delivered under storage, transmission, etc., contracts	163,300	118,931	118,069
Company use	1,048	1,232	1,292
Unbilled, unaccounted for, etc.	7,965	3,128	4,197
	392,811	325,987	296,809
Maximum day send-out—MCF	1,902,613	1,809,654	1,795,959
Gas out of storage on maximum day—MCF	987,016	900,121	1,022,249
Degree day deficiency	6,981	7,127	7,045

1971	1970	1969	1968	1967	1966	1965	1964
298,322	290,205	281,155	270,959	261,610	252,725	243,661	234,310
33,599	32,501	31,175	29,769	28,364	27,405	26,222	24,751
3,318	3,161	2,993	2,890	2,668	2,453	2,305	2,084
11	10	10	9	9	9	9	9
335,250	325,877	315,333	303,627	292,651	282,592	272,197	261,154
39,695	39,274	35,911	36,217	33,456	30,604	28,546	25,101
23,985	21,748	17,858	16,541	14,714	12,322	10,477	8,729
94,171	73,667	55,943	44,715	35,220	27,137	21,048	17,722
3,570	3,229	2,799	2,626	2,374	2,053	1,762	1,316
161,421	137,918	112,511	100,099	85,764	72,116	61,833	52,868
$ 45,289	$ 44,690	$ 41,004	$ 41,173	$ 38,126	$ 35,003	$ 32,670	$ 28,864
22,756	20,934	17,552	16,538	14,813	12,535	10,764	9,032
52,120	42,681	34,019	28,605	23,062	18,234	14,590	12,161
2,161	1,927	1,679	1,566	1,403	1,201	1,014	777
$122,326	$110,232	$ 94,254	$ 87,882	$ 77,404	$ 66,973	$ 59,038	$ 50,834
135.7	138.2	130.6	136.6	130.8	124.1	120.0	110.2
730.0	687.7	591.9	573.5	532.4	462.7	415.8	365.0
4,523	2,764	3,759	2,585	4,183	3,957	3,882	4,522
11,485	7,987	7,251	9,359	10,608	8,258	8,447	9,701
147,722	115,525	109,346	91,034	83,215	70,293	50,675	42,140
101,940	107,058	44,044	24,931	21,738	16,689	13,712	13,518
265,670	233,334	164,400	127,909	119,744	99,197	76,716	69,881
43,205	32,850	33,633	30,864	34,026	28,171	19,457	25,982
37,734	45,209	29,765	30,320	25,121	18,233	23,892	23,173
5,471	(–)12,359	3,868	544	8,905	9,938	(–)4,435	2,809
260,199	245,693	160,532	127,365	110,839	89,259	81,151	67,072
161,421	137,918	112,511	100,099	85,764	72,116	61,833	52,868
97,169	106,091	45,435	24,864	22,255	14,874	16,259	11,135
1,101	950	1,068	862	878	761	995	663
508	734	1,518	1,540	1,942	1,508	2,064	2,406
260,199	245,693	160,532	127,365	110,839	89,259	81,151	67,072
1,637,682	1,430,529	1,116,906	942,356	808,477	677,355	628,500	526,357
856,531	742,038	509,907	753,014	723,916	527,502	547,080	386,138
7,100	7,746	7,222	7,614	7,464	7,198	7,328	6,967

Statistics continued

Fiscal years ended March 31	1974	1973	1972
Condensed Balance Sheet ($000's)			
Assets:			
Properties	$367,174	$341,820	$312,458
Less accumulated depreciation	66,973	61,999	58,065
	300,201	279,821	254,393
Current assets	53,075	35,596	34,800
Deferred and other assets	13,247	11,936	8,302
Total	$366,523	$327,353	$297,495
Liabilities:			
Shareholders' equity—			
Preference shares	$ 18,414	$ 18,986	$ 19,159
Common shares	31,346	31,346	31,346
Retained earnings	56,737	54,715	49,407
Total	106,497	105,047	99,912
Minority shareholders' interest	—	—	—
Long-term debt	153,599	141,891	122,820
Deferred income taxes	48,521	43,171	36,417
Current liabilities	57,906	37,244	38,346
Total	$366,523	$327,353	$297,495
Equity Per Common Share			
No par value common shares outstanding (000's)	15,112	15,112	15,112
Equity per share	$ 5.83	$ 5.70	$ 5.34
Properties ($000's)			
Gross book value beginning of year	$341,820	$312,458	$290,127
Additions:			
Plant acquisitions and additions	20,821	24,382	19,278
Plant replacements	7,313	8,177	6,151
Gross additions and replacements	28,134	32,559	25,429
Retirements:			
Gross value of plant retired	2,780	3,197	3,098
Net additions to Properties	25,354	29,362	22,331
Gross book value end of year	$367,174	$341,820	$312,458
Miles of pipelines			
Gathering and storage lines	461	465	481
Transmission lines	1,905	1,881	1,862
Distribution lines	6,701	6,517	6,294
Total	9,067	8,863	8,637

1971	1970	1969	1968	1967	1966	1965	1964
$290,127	$264,100	$248,609	$229,874	$211,593	$200,293	$183,254	$163,589
54,786	51,124	48,022	44,387	39,444	34,938	30,958	27,458
235,341	212,976	200,587	185,487	172,149	165,355	152,296	136,131
33,998	32,805	33,909	29,820	32,405	25,675	20,257	20,484
6,993	8,119	7,311	7,723	7,491	4,929	4,750	4,020
$276,332	$253,900	$241,807	$223,030	$212,045	$195,959	$177,303	$160,635
$ 19,452	$ 19,496	$ 19,520	$ 19,520	$ 19,690	$ 20,000	$ 20,000	$ 13,000
31,308	31,266	30,471	30,422	29,720	29,720	29,720	22,451
44,946	42,028	38,979	36,198	32,341	28,625	25,537	22,968
95,706	92,790	88,970	86,140	81,751	78,345	75,257	58,419
—	—	—	9	8	7	6	5
108,000	102,660	107,138	91,566	95,569	85,947	74,625	77,750
31,978	27,278	23,533	18,653	15,553	13,713	11,586	8,734
40,648	31,172	22,166	26,662	19,164	17,947	15,829	15,727
$276,332	$253,900	$241,807	$223,030	$212,045	$195,959	$177,303	$160,635
15,108	15,104	15,028	15,023	14,955	14,955	14,955	13,595
$ 5.05	$ 4.85	$ 4.62	$ 4.43	$ 4.15	$ 3.90	$ 3.69	$ 3.34
$264,100	$248,609	$229,874	$211,593	$200,293	$183,254	$163,589	$149,443
23,169	13,286	16,720	16,248	10,421	15,323	18,569	12,792
4,923	4,721	4,131	3,628	2,535	3,386	2,580	2,967
28,092	18,007	20,851	19,876	12,956	18,709	21,149	15,759
2,065	2,516	2,116	1,595	1,656	1,670	1,484	1,613
26,027	15,491	18,735	18,281	11,300	17,039	19,665	14,146
$290,127	$264,100	$248,609	$229,874	$211,593	$200,293	$183,254	$163,589
499	572	605	624	627	627	642	663
1,842	1,800	1,742	1,677	1,630	1,592	1,560	1,501
6,058	5,821	5,591	5,419	5,240	5,061	4,846	4,644
8,399	8,193	7,938	7,720	7,497	7,280	7,048	6,808

Union Gas Limited

Head Office: 50 Keil Drive North, Chatham, Ontario

Directors

John D.Bradley, *Chatham*
President, Bradley Farms Limited and First Chatham Corporation Limited

John B.Cronyn, *London*
Vice-Chairman of the Board, John Labatt Limited

Colin S.Glassco, *Hamilton*
Company Director

C.Malim Harding, O.B.E., *Toronto*
Chairman of the Board, Harding Carpets Limited

F.W.P.Jones, *London*
Professor, School of Business Administration, University of Western Ontario

H.B.Keenleyside, C.B.E., *Toronto*
Company Director

Ian C.Rush, F.C.I.C., *Sarnia*
President and Chief Executive Officer, Polysar Limited

W.Dent Smith, LL.D., *Wilmington, Delaware*
Company Director

Ron W.Todgham, *Windsor*
President, Chrysler Canada Limited

David G.Waldon, *Toronto*
President, Interprovincial Pipe Line Limited

William H.Watson, *Chatham*
President, Huron Construction Company, Limited

Bruce F.Willson, P.Eng., *Chatham*
President and Chief Executive Officer, Union Gas Limited

Donald J.Wright, Q.C., *Toronto*
Partner, Lang, Michener, Cranston, Farquharson and Wright

Principal Officers

Ron W.Todgham
Chairman of the Board

Bruce F.Willson, P.Eng.
President and Chief Executive Officer

F.Capewell
Vice-President, Operations

R.G.Caughey, P.Eng.
Vice-President, Gas Supply

J.W.S. McOuat, Q.C.
Vice-President, General Counsel and Secretary

W.G.Stewart, C.A.
Vice-President, Finance

G.I.Wonnacott
Vice-President, Industrial Relations

R.G.James, B.Comm.
Treasurer

G.E.Miller, C.A.
Comptroller

Transfer Agents

Preference Shares

5½% Series A
Canada Permanent Trust Company
Toronto, Montreal, Winnipeg, Calgary and Vancouver

6% Series B
Canada Permanent Trust Company
Toronto, Montreal and Calgary

5% Series C
Canada Permanent Trust Company
Toronto, Montreal, Winnipeg and Calgary

Common Shares

Canada Permanent Trust Company
Toronto, Montreal and Calgary

The Chase Manhattan Bank
New York

Registrars

Preference Shares

5½% Series A
Canada Permanent Trust Company
Toronto, Montreal, Winnipeg, Calgary and Vancouver

6% Series B
Canada Permanent Trust Company
Toronto, Montreal and Calgary

5% Series C
Canada Permanent Trust Company
Toronto, Montreal, Winnipeg and Calgary

Common Shares

Crown Trust Company
Toronto and Montreal

Canada Permanent Trust Company
Calgary

Chemical Bank
New York

Dividend Disbursing Agent

Preference Shares, Series A, B and C, and Common Shares
Canada Permanent Trust Company
Toronto

Trustees for Bond and Debenture Issues

First Mortgage Bonds
Canada Permanent Trust Company
Toronto

1968 Series, 1970 Series, 1971 Series, 1972 Series and 1973 Series Debentures
The Royal Trust Company
Toronto

Debentures other than 1968 Series, 1970 Series, 1971 Series, 1972 Series and 1973 Series
Canada Permanent Trust Company
Toronto

Produced in Canada by Southam Murray

OWEN SOUND
BARRIE
SARNIA
Dawn
Durham
Walkerton
Mount Forest
Goderich
Clinton
Seaforth
LAKE HURON
TORONTO
GUELPH
WATERLOO
KITCHENER
Preston
Hespeler
GALT
New Hamburg
STRATFORD
St. Marys
OAKVILLE
BURLINGTON
HAMILTON
TATE OF MICHIGAN
WOODSTOCK
BRANTFORD
LONDON
PORT HURON
SARNIA
Dawn
ST. THOMAS
CHATHAM
TROIT
LAKE ST. CLAIR
WINDSOR
Belle River
Tilbury
Port Alma
Leamington
Kingsville
LAKE ERIE
Union Gas Pipeline System
Serving Southwestern Ontario
as at March 31 1974
Facilities of Union Gas Limited
Primary and secondary gas transmission and storage pipelines (proposed pipelines are shown as broken lines)
Scale: one inch equals approximately 23 miles
Major compressor stations
Principal gas storage fields (see inset)
Portion of transmission facilities of TransCanada PipeLines Limited, The Consumers' Gas Company, Great Lakes Gas Transmission Company Limited and Panhandle Eastern Pipe Line Company

UNION GAS
LIMITED

requirements. In its Submission, Union stresses that, in determining Canadian needs, proper recognition must be given to increasing future requirements when determining volumes available for export. The enquiry will commence on November 13, 1974 in Calgary and Union intends to participate actively.

Union does not anticipate any difficulties in supplying its customers' requirements this coming winter. However, the Company's principal supplier, TransCanada PipeLines, has advised that it may have to reduce its deliveries to Eastern Canada markets in one to two years time due to declining deliverability. TransCanada indicates it is experiencing difficulty in contracting for sufficient new reserves in Western Canada to sustain present contract levels for any significant time into the future. As a result of studies which took into consideration the latest information available from TransCanada, Union determined that it should advise those large volume contract customers with present or potential alternative fueling capabilities that it may be necessary, in mid-to-late 1976, to curtail the level of their deliveries in order to meet the requirements of the residential, commercial and small industrial markets in the service area. We are hopeful that Canada's natural gas reserves will be managed wisely, so that any such curtailment can be avoided.

Effective October 1, 1974, William G. Stewart, C.A., formerly Vice-President, Finance, was appointed President and Chief Executive Officer, following the resignation of Bruce F. Willson. Mr. Willson continues as a member of the Board of Directors and as a consultant to the Company on gas supply and other matters.

W. G. Stewart
President and Chief Executive Officer

PRINTED IN CANADA

Six-month Report to Shareholders

including financial information
for the six-month and
twelve-month periods ended
September 30, 1974 and 1973

S4

UNION GAS LIMITED

October 29, 1974

UNION GAS LIMITED

Interim statement of income*

	Six months ended September 30 1974	1973	Twelve months ended September 30 1974	1973**
	(thousands of dollars)			
Gas sales	$ 72,081	$ 59,923	$186,749	$157,185
Other income	8,314	6,590	17,043	13,565
	80,395	66,513	203,792	170,750
Cost of gas sent out	47,876	37,179	120,529	92,132
Other operating and maintenance costs	16,092	14,286	32,672	29,433
Property and capital taxes	2,134	1,815	4,137	3,520
Depreciation	3,987	3,662	7,635	6,960
Interest and expense on long term debt	5,991	5,623	11,828	10,399
Other interest expense	1,269	316	2,671	1,132
	77,349	62,881	179,472	143,576
Income before income taxes	3,046	3,632	24,320	27,174
Income taxes	1,415	1,736	11,881	12,237
Net income	1,631	1,896	12,439	14,937
Dividends on preference shares	501	509	1,001	1,026
Earnings applicable to common shares	$ 1,130	$ 1,387	$ 11,438	$ 13,911
Earnings per common share	7.5¢	9.2¢	75.7¢	92.1¢

*This statement is unaudited and subject to year-end adjustments and is not to be taken as a prediction for the fiscal year as the business is seasonal in nature and influenced by weather conditions.

**Reflects short term Provincial and Federal income tax reductions which expired prior to April 1, 1973 as follows:

$ Nil	$ Nil	$ Nil	$ 1,255

Note: Earnings per common share are calculated on the weighted average number outstanding in the periods.

UNION GAS LIMITED

Interim statement of source and application of funds

	Six months ended September 30		Twelve months ended September 30	
	1974	1973	1974	1973
	(thousands of dollars)			
Funds Provided:				
Net income for period	$ 1,631	$ 1,896	$ 12,439	$ 14,937
Add amounts deducted in arriving at net income which did not involve an outlay of funds—				
Depreciation and amortization	4,394	3,999	8,345	7,599
Deferred income taxes	2,700	2,310	5,740	6,536
Total funds provided from operations	8,725	8,205	26,524	29,072
Long term debt issued	28,000	20,000	28,000	44,821
	$ 36,725	$ 28,205	$ 54,524	$ 73,893
Funds Applied:				
Net expenditure on properties	$ 17,369	$ 15,004	$ 30,488	$ 31,594
Retirement of long term debt	11,979	2,604	17,667	5,854
Dividends declared—common shares	4,836	4,836	9,672	9,672
—preference shares	501	509	1,001	1,026
Net advances (repayments) on mortgages receivable	(469)	(739)	(833)	(1,556)
Purchase of preference shares for cancellation	69	484	157	588
Gas Arctic—North West Project Study Group expenditures	480	344	863	1,519
Investment in Major Holdings and Developments Limited	2,769	—	2,769	—
Long term debt issue costs	501	380	506	819
Deferred gas costs	—	735	—	2,587
Miscellaneous	716	(3)	1,492	(46)
Increase (decrease) in working capital	(2,026)	4,051	(9,258)	21,836
	$ 36,725	$ 28,205	$ 54,524	$ 73,893

To the Shareholders:

Enclosed with this interim report is your regular quarterly dividend cheque for 16¢ per common share, payable November 1, 1974 to shareholders of record October 4, 1974.

Net income for the six months ended September 30, 1974 was $1,631,000 compared with $1,896,000 for the same period of last year. Earnings per common share were 7.5¢ compared with 9.2¢. Virtually all costs of conducting the Company's business increased markedly, reflecting current inflationary conditions. Total operating expenses and interest, including gas costs, increased by 23.0% over the six months ended September 30, 1973, while total revenues were up by 20.9%.

These results indicate clearly the need for an upward revision in the Company's gas rates. As they do not reflect the recent Ontario Energy Board Decision establishing a larger rate base and higher allowable rate of return for the Company, and since the Company's business is seasonal in nature, the results for the six-month period should not be taken to be representative of the full year's operating results.

For the six months ended September 30, total volume of gas sold was 90 billion cubic feet, 6.3% higher than the volume in the same period of 1973. Increases occurred in sales to all classes of customers, reflecting the growing energy requirements of Southwestern Ontario, the increasing number of customers and the slightly cooler weather in the period as compared with a year ago.

On October 17, 1974 the Ontario Energy Board released its Reasons for Decision on Phase I of the Company's main application for a rate review. The Board established the Company's allowable rate of return as 9.6% on a rate base of $318.7 million and determined that the annual revenue deficiency under existing rate schedules is $10.6 million. The revenue deficiency calculated by the Board includes recognition of the need to recover, in the gas rates charged to customers, the unavoidable increases in payroll and other operating expenses.

In establishing the allowable rate of return, the Board indicated its recognition of economic uncertainties and the need for Union to be able to attract the large amounts of capital which will be required to meet the growing needs of its service territory.

The prospects for growth in the Company's earnings are enhanced by the Board's establishment of an allowable rate of return of 9.6%. The Company calculates that it actually experienced an 8.7% rate of return in the fiscal year ended March 31, 1974.

In its Decision, the O.E.B. confirmed the two interim rate increases previously granted to the Company on an interim basis in respect to increased gas costs and which had been put into effect during the last fiscal year.

The Company is currently preparing its Application to be filed with the Energy Board for appropriate rate changes to reflect the Board's Decision and anticipates that a public hearing to deal with this second phase will begin in December.

As a result of recent National Energy Board decisions, the Company's cost of gas purchased from TransCanada PipeLines Limited increased approximately 2.5¢ per mcf, effective September 1, 1974, and will increase further by about 24.2¢ per mcf, effective November 1, 1974.

In making application to the Ontario Energy Board for the setting of rates to reflect the Decision just received, the Company will include in its proposed new rate schedules the above-noted increases in gas costs. While it is expected that the hearing of Union's application will commence in December, the Company will request the Board to authorize interim rate increases pending the completion of the full hearing and the institution of approved new rate schedules. With the approval of the Board, the Company will delay such increases to give recognition to the inventory of lower priced gas presently in storage.

Union Gas has filed a Submission with the National Energy Board in connection with a forthcoming enquiry into the supply and deliverability of Canadian natural gas relative to